Attachment 1

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AGENDA ITEM 6

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: 30 year Amortization Extension Policy Guidelines

II. PROGRAM: Actuarial & Employer Services Division

III. RECOMMENDATION: This is an information item as requested by the Committee. It sets forth the Chief Actuary's thought on the criteria guidelines for approving requests by employers for extensions of up to 30 years to amortize their unfunded liability.

IV. ANALYSIS:

Background

Since 1996, the Board policy on amortization periods contained a provision that allowed employers facing financial hardship to request an extension of time, up to 30 years, to amortize their unfunded pension liability. The provision stated that the employer could petition the Board, "or its designee" to obtain such an extension. At its December 2002 meeting the Board amended that policy to state that the employer could petition the Chief Actuary for such an extension. The Board asked that I provide guidelines to be used in deciding whether to grant such an extension.

Discussion

It must be stated that the decision should be and will be made on a case by case basis based on the facts and circumstances of each employer's plan for which such a request is received. The items to be reviewed are not intended to be hard and fast rules that require Board regulations.

Aspects that will be reviewed include, but may not be limited to:

- An indication of need for rate relief – a statement of hardship from the employer, including a statement that they have notified their employees or employee groups of the request for an extension of their amortization period.
- An indication that the extension will, in fact provide rate relief – that is if the current net amortization period is already near 30 years, then extending to 30 years will not produce measurable rate relief and is unwarranted.
- An indication that the reductions in employer rate will produce no long-term harm to that employer's plan.
    - This will include a review of that specific plan's future cash flows to insure that benefit payments and refunds are not jeopardized in any way.
    - The review will also include a review of future funded status of the plan. With an amortization of the unfunded liability over thirty years as a level percent of payroll (which is expected to grow at 3.75% annually), the first 13 years of the amortization payment is less than the annual interest on the unfunded liability. This produces negative amortization and, without offsetting gains, the unfunded liability increases (by about 15%) during the first 13 years of the amortization period. Then, from the 14th through 30th year, the payment on the unfunded liability exceeds the interest and the unfunded liability is brought to zero in the 30th year. The actuaries will look at the projected unfunded liability to analyze whether the projected unfunded liability and the required payments remain manageable over the 30-year funding period.
    - The actuary will review the plan's funded status on a termination basis. That is, should the employer choose to terminate the plan (as current State law allows) in the future, the plan's assets should appear to remain sufficient into the future to cover all plan termination liabilities without any reduction in benefits.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plans but is part of the regular and ongoing workload of the Actuarial & Employer Services Division.

VI. RESULTS/COSTS:

No additional program costs are anticipated as a result of this item.

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Ronald L. Seeling
Chief Actuary
Actuarial and Employer Services